

San Bernardino County



Larry Walker

Auditor-Controller/Treasurer/Tax Collector

PRESS RELEASE For Immediate Release

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From: Larry Walker, Auditor-Controller/Treasurer/Tax Collector

DEBT CEILING INCREASE IMPACTS COUNTY TREASURY POOL

SAN BERNARDINO, CA - Larry Walker, San Bernardino County Auditor-Controller/Treasurer/Tax Collector reported that, on July 15, 2011, Standard & Poor's Ratings Services placed its AAAs long-term rating for the San Bernardino County Investment Pool on CreditWatch with Negative Implications leaving the S1+ volatility rating unchanged. This action was directly related to the CreditWatch Negative issued by Standard & Poor's on the AAA/A1+ credit ratings of the United States of America (its agencies and instrumentalities).

Standard & Poor's placed the U.S. on CreditWatch Negative due to issues related to the federal debt ceiling and medium-term fiscal consolidation plan. Following that rating action, they placed 73 of 206 Fund Credit Quality Ratings, including the San Bernardino County Investment Pool, on CreditWatch Negative due to significant portfolio exposures to U.S. sovereign credit ratings (generally greater than 50%). As of June 30, 2011, the San Bernardino County Investment Pool held 56.71% of its portfolio assets in instruments issued or backed by the United States Government.

Standard & Poor's uses CreditWatch to indicate a substantial likelihood of it taking a rating action within the next 90 days, or in response to events presenting significant uncertainty to the creditworthiness of an issuer. The CreditWatch placement signals S&P's view that, owing to the dynamics of the political debate on the debt ceiling and fiscal plan, there is at least a one-in-two likelihood that S&P could lower the long-term rating on the U.S. within the next 90 days (and subsequently the San Bernardino County Investment Pool).

Following the action by Standard & Poor's, on July 18, 2011, Moody's Investors Service placed the Aaa bond fund rating of the San Bernardino County Treasury Pool on review for possible downgrade due to the Pool's large direct investments in US Treasury and government agency securities. This action follows Moody's July 13, 2011 decision to place on review for possible downgrade the Aaa bond ratings of the United States Government as well as financial institutions directly linked to the US Government. Moody's took no action with respect to its MR1 market risk rating currently assigned to the Treasury Pool.

As was noted in a Moody's press release, "the review of the US Government's bond rating was prompted by the possibility that the statutory debt limit will not be raised in time to prevent a missed payment of interest or principal on outstanding bonds and notes. As such, there is a small but rising risk of a short-lived default. In such an event, however, the rating of the US government would most likely be downgraded to somewhere in the Aa range."

Walker stated, "I do not foresee any issues with the San Bernardino County Treasury Pool's liquidity or ability to meet its obligations if the United States is indeed downgraded. The rating actions by S&P and Moody's are not a reflection on the management of the San Bernardino County Investment Pool or its investment policies. This is clearly in reaction to Congress's inability to reach an agreement on the US debt ceiling and the possibility of a US ratings downgrade."

The San Bernardino County Investment Pool has maintained the highest attainable ratings from all three major ratings agencies since 1999 and is recognized as one of the best managed local government investment pools in the nation.

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For information regarding this press release, please contact:

Tracy Calenti
Special Projects Administrator
Phone: (909) 387-9101
Fax: (909) 387-6326
tracy.calenti@atc.sbcounty.gov
www.sbcounty.gov/atc